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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of

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1997 Annual Access  
Tariff Filings

CC Docket No. 97-149

**Rebuttal of Sprint Local Telephone Companies to Oppositions to Direct  
Cases**

The Sprint Local Telephone Companies ("Sprint") hereby submit their rebuttal in response to oppositions filed by AT&T and MCI to direct cases in response to the Commission's Order Designating Issues for Investigation Memorandum Opinion and Order on Reconsideration in the 1997 annual Access Tariff proceeding, DA 97-149, released July 28, 1997 (the "Designation Order").

As Sprint stated in its Direct Case, Sprint's forecasts submitted in its 1997 annual access tariff filing are just and reasonable and should be upheld. Sprint's 1997 annual access tariff filing forecasts differed from the adjusted base factor portion (BFP) and end user common line (EUCL) revenue requirement data calculated as ordered by the Commission in the Designation Order by less than one-half of one percent. None of the oppositions to the direct cases challenges Sprint's calculations.<sup>1</sup> Oppositions by AT&T and MCI do, however, challenge other local exchange companies' BFP revenue requirement forecasts and resulting carrier common line (CCL) rates and end user common line rates both individually and as a group. The oppositions urge the Commission to require LECs to

<sup>1</sup> Neither AT&T nor MCI challenges Sprint's calculations, and MCI specifically states that its opposition to 1997-98 forecasts of " 'price cap LECs' refers to the BOCs and GTE" (MCI opposition, footnote 4).

adjust their current rate levels and make refunds for the period covered by this investigation.

Although Sprint's BFP revenue requirement forecasts were not challenged by AT&T in its opposition, Sprint feels compelled to alert the Commission to two significant flaws in the forecasting methodology AT&T uses to challenge the BFP revenue requirement forecasts of LECs generally: 1) AT&T's calculations of revenue requirement growth percentages between the tariff filing years fail to adjust for Commission rule changes; 2) AT&T's methodology for calculating the cumulative impact of CCL under- and over-charges appears to incorrectly compound tariff year effects throughout the 6-year period, when compounding effects must cease once the multi-line business rate equals the pricecap (\$6.00).

Sprint is concerned that AT&T's methodology misrepresents total industry amounts with respect to BFP revenue requirements and the resulting rates developed for the EUCL and CCL charges. Should AT&T's methodology be adopted by the Commission, significant amounts of revenue requirement might inappropriately be recovered from end users.

In an effort to understand AT&T's BFP forecasting methodology, Sprint replicated AT&T's calculations in its own model. The results of this exercise support Sprint's argument against adopting AT&T's methodology and are provided in Exhibit 1, "Sprint's Demonstration of Flawed AT&T Forecasting Methodology."

As shown in Exhibit 1, were AT&T's forecasting methodology to be applied to Sprint, it would overstate Sprint's 1997-1998 BFP revenue requirement to \$578,756K, which is \$11,896K higher than Sprint's filed \$566,860K. This overstated number would be derived by taking an average of five years' unadjusted revenue requirement growth and projecting the 1997-1998 revenue requirement. As recognized by the Commission and

subsequently directed in the Designation Order (paragraphs 19-25), the BFP revenue requirement growth percentages between the tariff filing years must first be adjusted to account for Commission rule changes that have occurred through those years. If AT&T's methodology did this, the 1997-1998 actual revenue requirement would be \$565,356K, or a difference of less than 0.27% from Sprint's filed BFP revenue requirement. Exhibit 1, page 1 of 2, demonstrates this impact. The adjusted annual impact is a \$309K under-charge to the CCL rate instead of an overcharge of \$2,449K derived if applying the AT&T methodology.

AT&T's methodology for calculating the cumulative impact of CCL under- and over-charges is flawed. As shown in Exhibit 1, page 2, AT&T's incorrectly compounds the effects of the first two tariff years over the entire six-year period. Compounding effects must cease once the multi-line business rate charge equals the cap (\$6.00) and failure to do so seriously skews results. It is at this point that any further increase in the EUCL revenue requirement must be recovered through the CCL charge. Applying AT&T's methodology would incorrectly suggest that Sprint has historically (1991 through 1997 tariff years) overcharged interexchange carriers \$3,797K via the CCL charges during that period. Line 14 illustrates a more realistic amount of potential historic overcharge, \$447K, which is less than 0.19% on a base of \$230,200K.

As stated in its Direct Case, Sprint's forecasts submitted in its 1997 annual access tariff filing are just and reasonable and based on a sound forecasting methodology. By contrast, the methodology proposed by AT&T is seriously flawed, as described above, and should not be adopted by the Commission.


To obviate forecasting inconsistencies and inaccuracies in the future, Sprint restates its opinion that forecasting in general is an inexact method for establishing BFP revenue requirements and Sprint urges the Commission to adopt a methodology for future

determinations of BFP revenue requirement that relies on historical data, consistent with other price cap determinations.

Respectfully submitted,

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September 24, 1997

## Sprint's Demonstration of Flawed AT&T Forecasting Methodology

**Exhibit 1**

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### A T & T Method for Forecasting BFP Revenue Requirement ( 000 Omitted )

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>Avg.</u>	Payphone 97/98 Proj. Adj. <u>1996</u>	97/98 Proj. w/o Payphone	97/98 Proj. with Payphone
BFP Revenue Requirement: Actual *	392,431	401,943	448,023	497,579	515,227	529,207		-	578,756	578,756
BFP Revenue Requirement: Growth		2.42%	11.46%	11.06%	3.55%	2.71%	6.24%			
Filed Difference										566,860 11,896

	<u>AT&amp;T BFP RR Projection (A)</u>	<u>LEC BFP RR Projection (B)</u>	<u>Prospective EUCL Volumes (C)</u>	<u>AT&amp;T EUCL Rate (D)</u>	<u>LEC EUCL Rate (E)</u>	<u>Difference (F)=D-E</u>	<u>Base Period MLB EUCL Volumes (G)</u>	<u>Impact (H)=F*G</u>	<u>Annual Impact (I)=H*12</u>
Sprint Local Telephone Division	578,756	566,860	7,367	\$ 6.55	\$ 6.41	\$ 0.13	1,516	204	\$ 2,449

### SPRINT LTD Method for Forecasting BFP Revenue Requirement ( 000 Omitted )

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>Avg.</u>	Payphone 97/98 Proj. Adj. <u>1996</u>	97/98 Proj. w/o Payphone	97/98 Proj. with Payphone
BFP Revenue Req.: Actual Adjusted *	423,755	441,920	470,290	497,579	515,227	529,207		-	565,356	565,356
BFP Revenue Req.: Growth		4.29%	6.42%	5.80%	3.55%	2.71%	4.55%			
Filed Difference										566,860 (1,503)

	<u>AT&amp;T BFP RR Projection (A)</u>	<u>LEC BFP RR Projection (B)</u>	<u>Prospective EUCL Volumes (C)</u>	<u>AT&amp;T EUCL Rate (D)</u>	<u>LEC EUCL Rate (E)</u>	<u>Difference (F)=D-E</u>	<u>Base Period MLB EUCL Volumes (G)</u>	<u>Impact (H)=F*G</u>	<u>Annual Impact (I)=H*12</u>
Sprint Local Telephone Division	565,356	566,860	7,367	\$ 6.40	\$ 6.41	\$ (0.02)	1,516	(26)	\$ (309)

Note: See Sprint LTD Direct Case Exhibit 1

## Sprint's Demonstration of Flawed AT&T Forecasting Methodology

**Exhibit 1**

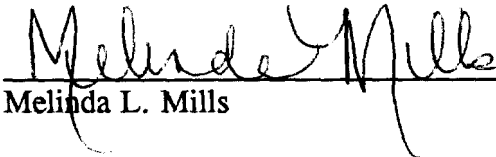
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			ACCESS TARIFF YEARS					96/97	
			<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>94/95</u>	<u>95/96</u>	<u>Total</u>	<u>Cumulative</u>
1	Actual BFP Rev. Req.		394,134	424,537	472,239	512,230	517,572		
2	Forecasted BFP Rev. Req.		399,975	404,382	449,691	468,439	485,200		
3	Under/Over Forecast of BFP	Line 2 - Line 1	5,840	(20,156)	(22,547)	(43,792)	(32,372)		
4	Actual Total Billable Lines		5,506	5,739	6,027	6,323	6,666		
5	Forecasted Total Billable Lines		5,423	5,713	5,942	6,219	6,533		
6	Actual BFP RR Per Line	Ln 1/Ln 4/12	5.97	6.16	6.53	6.75	6.47		
7	Forecasted BFP RR Per Line	Ln 2/Ln 5/12	6.15	5.90	6.31	6.28	6.19		
8	MLB Cap per Actual Data	Ln 6 or < 6.00	5.97	6.00	6.00	6.00	6.00		
9	MLB Cap per Projected Data	Ln 7 or < 6.00	6.00	5.90	6.00	6.00	6.00		
10	Difference	Ln 8 - Ln 9	(0.03)	0.10	-	-	-		
11	Forecasted MLB		916	999	1,073	1,184	1,263		
12	Actual MLB		933	1,014	1,121	1,201	1,335		
13	AT&T Calculated CCL (Under)/Over Charge	Ln 10*Ln 12*12	(391)	1,228	-	-	-	837	3,797
14	Sprint Calculated CCL (Under)/Over Charge	Ln 10*Ln 12*12	(391)	1,228	-	-	-	837	447

Note: Compounding should stop at the point that the MLB rate reaches the Cap since any increase has no effect.

## CERTIFICATE OF SERVICE

I, Melinda L. Mills, hereby certify that I have on this 24<sup>th</sup> day of September, 1997, served via U.S. First Class Mail, postage prepaid, or Hand Delivery, a copy of the foregoing "Sprint Local Telephone Companies Rebuttal to Oppositions to Direct Cases", In the Matter of 1997 Annual Access Tariff Filings, CC Docket No. 96-149, filed this date with the Acting Secretary, Federal Communications Commission, to the persons on the attached service list.

  
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